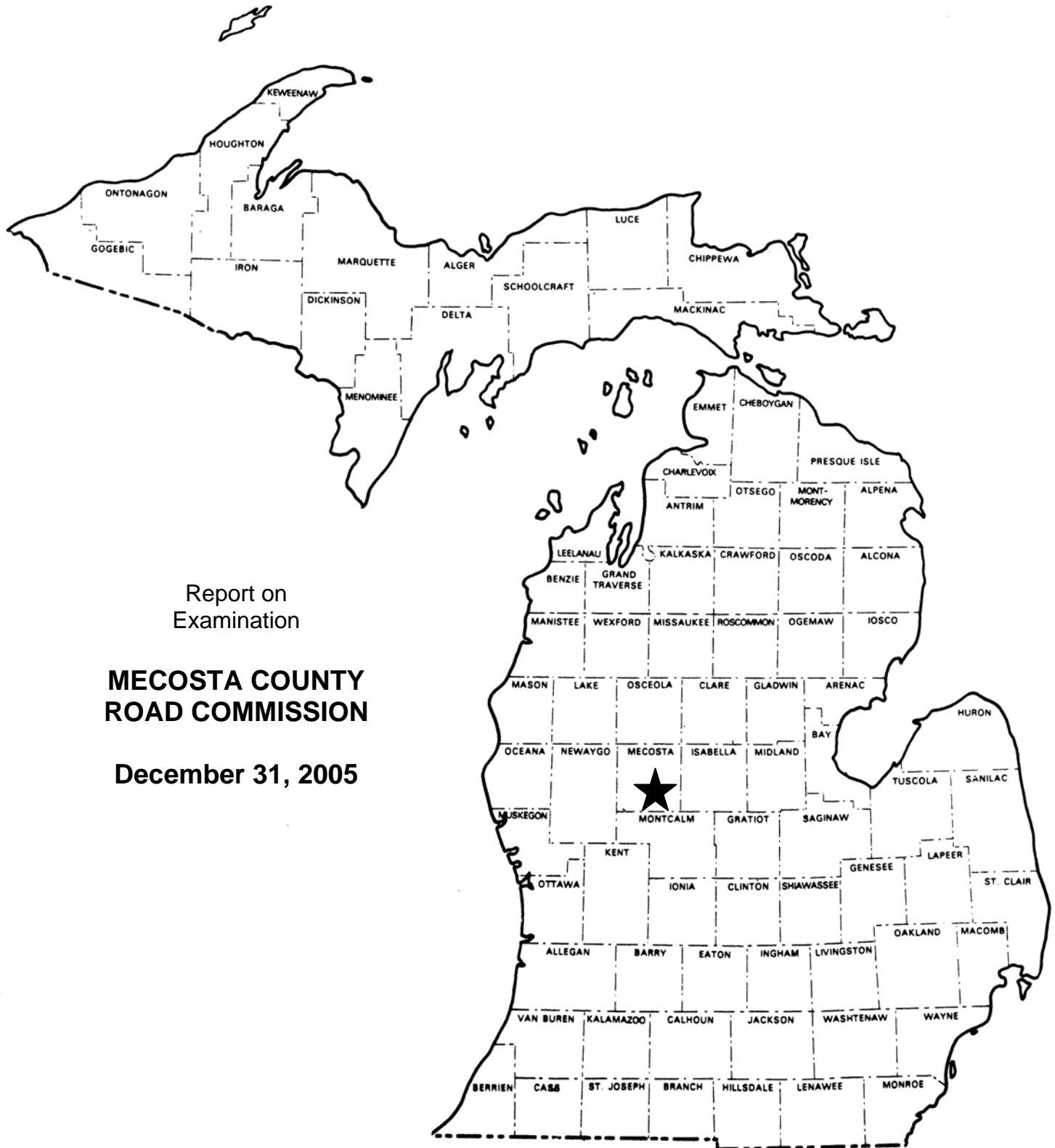


**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**



Report on  
Examination

**MECOSTA COUNTY  
ROAD COMMISSION**

**December 31, 2005**

MECOSTA COUNTY ROAD COMMISSION  
BOARD OF COUNTY ROAD COMMISSIONERS

John R. Currie  
Chairperson

Paul A. Jefts  
Vice Chairperson

Randy Maxwell  
Member

Joyce E. Randall  
Managing Director

COUNTY POPULATION--2000  
40,553

STATE EQUALIZED VALUATION--2005  
\$1,508,681,850



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

March 22, 2006

Mecosta County Road Commission  
Board of County Road Commissioners  
120 DeKraft  
Big Rapids, Michigan 49307

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Mecosta County Road Commission, a component unit of Mecosta County, Michigan, as of and for the year ended December 31, 2005, as listed in the Table of Contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mecosta County Road Commission as of December 31, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 7 and budget comparison information in Exhibits G and H are not part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board and generally accepted accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2006 on our consideration of the Road Commission's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Mecosta County Road Commission, taken as a whole. The accompanying supplemental and related information in Exhibits I through K is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

# MECOSTA COUNTY ROAD COMMISSION

## TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	1
 <b>BASIC FINANCIAL STATEMENTS--GOVERNMENT-WIDE/GOVERNMENTAL FUND FINANCIAL STATEMENTS:</b>	
EXHIBIT A--Statement of Net Assets .....	8
EXHIBIT B--Statement of Activities .....	9
EXHIBIT C--Balance Sheet .....	10
EXHIBIT D--Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets .....	11
EXHIBIT E--Statement of Revenues, Expenditures and Changes in Fund Balance .....	12
EXHIBIT F--Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statements of Activities .....	13
NOTES TO FINANCIAL STATEMENTS .....	14
 <b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
EXHIBIT G--Schedule of Revenues and Other Financing Sources Budgetary Comparison Schedule .....	27
EXHIBIT H--Schedule of Expenditures--Budget and Actual Budgetary Comparison Schedule .....	28
 <b>SUPPLEMENTAL SCHEDULES</b>	
EXHIBIT I--Analysis of Changes in Fund Balances .....	29
EXHIBIT J--Analysis of Revenues and Other Financing Sources .....	30
EXHIBIT K--Analysis of Expenditures .....	31
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance With <u>Government Auditing Standards</u> .....	32

# **MECOSTA COUNTY ROAD COMMISSION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of Mecosta County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

### **Overview of the Financial Statements**

This annual report consists of four parts--Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two types of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on the General Fund, reporting the operations in more detail than the government-wide statements.

### **Reporting the Road Commission as a Whole**

#### **Government-Wide Statements**

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

# **MECOSTA COUNTY ROAD COMMISSION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution.

### **Fund Financial Statements**

The Road Commission has only one fund, the General Operations Fund. All of the Road Commission's activities are accounted for in this fund. The General Operations Fund is a governmental fund type. Our analysis of the Road Commission's Major Fund begins on page 4 and provides detailed information about the Major Fund.

The Governmental Fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the Governmental Fund in a reconciliation following the fund financial statements.

### **Financial Analysis of the Road Commission as a Whole**

The Road Commission's net assets increased approximately 0.53% from \$27,970,478 to \$28,119,165 for the year ended December 31, 2005. The net assets and change in net assets are summarized below.

### **Net Assets**

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets-net of related debt) are considered restricted.

The depreciation for the current year's infrastructure assets will be depreciated in the subsequent year.

**MECOSTA COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Net assets as of year ended December 31, 2005 follows:

	<u>2004</u>	<u>2005</u>	<u>Difference</u>	<u>Percent</u>
Current and Other Assets	\$ 2,021,088	\$ 1,915,320	\$ (105,768)	-5.23%
Capital Assets	<u>26,554,142</u>	<u>26,913,158</u>	<u>359,016</u>	<u>1.35%</u>
Total Assets	<u>28,575,230</u>	<u>28,828,478</u>	<u>253,248</u>	<u>0.89%</u>
Current Liabilities	132,200	184,599	52,399	40%
Noncurrent Liabilities	<u>472,552</u>	<u>524,714</u>	<u>52,162</u>	<u>11.04%</u>
Total Liabilities	<u>604,752</u>	<u>709,313</u>	<u>104,561</u>	<u>17.29%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	26,554,142	26,913,158	359,016	1.35%
Restricted	<u>1,416,336</u>	<u>1,206,007</u>	<u>(210,329)</u>	<u>-14.85%</u>
Total Net Assets	<u>\$27,970,478</u>	<u>\$28,119,165</u>	<u>\$ 148,687</u>	<u>0.53%</u>

The restricted net assets decreased by \$210,329 during 2005. The primary reason for the decrease was a net increase in maintenance expenses, which exceeded the increase in MTF and State and Federal Grants. The net assets invested in capital assets, net of related debt increased by \$359,016 due to an increase in capital outlay purchases.



**MECOSTA COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Changes in Net Assets

A summary of changes in net assets for the year ended December 31, 2005 follows:

<u>Governmental Activities</u>	<u>2004</u>	<u>2005</u>	<u>Difference</u>	<u>Percentage</u>
Program Revenue				
Federal Grants	\$ 126,830	\$ 33,128	\$ (93,702)	-73.88%
State Grants	4,766,858	4,924,726	157,868	3.31%
Contributions From Local Units	559,465	468,579	(90,886)	-16.25%
Charges for Services	1,252,524	884,224	(368,300)	-29.40%
Investment Earnings	19,891	96,415	76,524	384.72%
General Revenue				
Gain on Equipment Disposal	134,849	154,077	19,228	14.26%
Total Revenues	<u>6,860,417</u>	<u>6,561,149</u>	<u>(299,268)</u>	<u>-4.36%</u>
Expenses				
Primary Road Maintenance	1,190,697	1,280,818	(90,121)	-7.57%
Local Road Maintenance	2,210,976	2,438,550	(227,574)	-10.29%
State Trunkline Maintenance	1,223,556	792,998	430,558	35.19%
Net Equipment Expense	(300,960)	(151,019)	(149,941)	49.82%
Net Administrative Expense	165,519	206,299	(40,780)	-24.64%
Infrastructure Depreciation Expense	1,822,130	1,829,397	(7,267)	-100.00%
Compensated Absences	12,194	15,419	(3,225)	-26.45%
Total Program Expenses	<u>6,324,112</u>	<u>6,412,462</u>	<u>(88,350)</u>	<u>-1.40%</u>
Increase in Net Assets	<u>536,305</u>	<u>148,687</u>	<u>(387,618)</u>	<u>-72.28%</u>
Ending Net Assets	<u>\$ 27,970,478</u>	<u>\$ 28,119,165</u>	<u>\$ 148,687</u>	<u>0.53%</u>

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for road and highway purposes. For the year ended December 31, 2005, the fund balance of the General Operations Fund decreased \$194,910 as compared to a decrease of \$11,330 in the fund balance for the year ended December 31, 2004. Total revenues were \$6,561,149, a decrease of \$299,268 as compared to last year. This change in revenues resulted primarily from a decrease of MTF of \$240,300 as well as an increase in Federal and State Grants. Total expenditures were \$6,756,059, a decrease of \$115,688 as compared to last year. This change in expenditures is due primarily to a decrease in Heavy Maintenance of \$621,265.

**MECOSTA COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

A summary of changes in the Operating Fund is as follows:

	12/31/04 Operating Fund	12/31/05 Operating Fund	Favorable (Unfavorable) Variance	Variance %
Revenues				
Federal Aid	\$ 126,830	\$ 33,128	\$ (93,702)	-73.88%
State Aid	4,766,858	4,924,726	157,868	3.31%
Contributions From Local Units	559,465	468,579	(90,886)	-16.25%
Charges for Services	1,191,154	794,440	(396,714)	-33.31%
Interest and Rents	19,891	96,415	76,524	384.72%
Other Revenue	196,219	243,861	47,642	24.28%
Total Revenues	6,860,417	6,561,149	(299,268)	-4.36%
Expenditures				
Public Works	5,815,122	5,162,163	652,959	11.23%
Capital Outlay	1,056,625	1,593,896	(537,271)	-50.85%
Total Expenditures	6,871,747	6,756,059	115,688	1.68%
Excess of Revenues Over (Under) Expenditures	(11,330)	(194,910)	(183,580)	1620.30%
Fund Balance--Beginning of Year	1,627,890	1,616,560	(11,330)	-0.70%
Fund Balance--End of Year	\$ 1,616,560	\$ 1,421,650	\$ (194,910)	-12.06%

**Budgetary Highlights**

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

**MECOSTA COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The final amended revenue budget for 2005 was \$751,027 higher than the original budget due to the Road Commission receiving more Federal Exchange Funds money, State share in salt shed, increase in property rentals and interest, and land sales during the year as originally planned. The actual revenue recognized during 2005 was \$205,878 less than the final amended budget.

The final amended expenditure budget for 2005 was \$751,027 higher than the original budget primarily due to the Road Commission having higher maintenance expenditures and an increase in capital outlay expenditures than originally planned. The actual expenditures recognized during 2005 were less than the final amended budget by \$10,968.

**Capital Assets**

As of December 31, 2005, the Road Commission had invested \$26,554,142 in capital assets. This amount represents a net increase (including additions and deductions) of \$559,830 or 2.15% as follows:

	2004	2005	Total Percentage Change 2004-2005
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 255,547	\$ 313,737	22.77%
Infrastructure Land and Improvements	8,057,854	8,091,104	0.41%
Subtotal	8,313,401	8,404,841	1.10%
Capital Assets Being Depreciated			
Buildings	1,634,223	2,382,685	45.80%
Equipment	5,471,346	5,680,731	3.83%
Infrastructure--Roads and Bridges	29,336,554	28,721,128	100.00%
Subtotal	36,442,123	36,784,544	0.94%
Total Capital Assets	44,755,524	45,189,385	0.97%
Total Accumulated Depreciation	(18,201,382)	(18,276,226)	0.41%
Total Net Capital Assets	\$ 26,554,142	\$ 26,913,159	1.35%

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$1,471,476. The infrastructure recorded during 2005 will be depreciated in the following year. The infrastructure is financed through State and local contributions. The Road Commission reported all retroactive infrastructure assets (assets acquired after 1980) in the current year according to GASB No. 34.

**MECOSTA COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This year's major capital asset additions included the following:

Infrastructure Land Improvements	\$ 33,250
Land	58,190
Buildings	748,462
Road Equipment	768,787
Engineer Equipment	5,793
Office Equipment	12,664
Infrastructure--Bridges	47,991
Infrastructure--Roads	<u>1,390,235</u>
Total Additions	<u><u>\$ 3,065,372</u></u>

There were no installment purchase agreements entered into during 2005; all the equipment was acquired with Road Commission funds.

During 2005, the Road Commission traded in and/or disposed of road equipment with a purchase amount of \$577,859, related depreciation of \$356,414, and net book value of \$221,445.

**Economic Factors and Next Year's Budget**

The board of county road commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy. The Road Commission derived approximately 62% of its revenues from the Motor Transportation Fund collected in 2005. The Road Commission received approximately 6% of its revenues from township contributions during 2005. This amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. We are anticipating that the townships will spend \$300,000. During 2006, we expect to receive \$4,600,000 in State Aid for road projects. This is a decrease of 8% over last year's amended budget.

The above items were considered when adopting the budget for 2006.

**Contacting the Road Commission's Financial Management**

The financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Mecosta County Road Commission administrative office at (231) 796-2611.

**MECOSTA COUNTY ROAD COMMISSION**  
**STATEMENT OF NET ASSETS**  
**December 31, 2005**

**EXHIBIT A**

**ASSETS**

Bank Deposits	\$ 694,101
Accounts Receivable	
State--Trunkline Maintenance	135,983
Michigan Transportation Fund	635,792
State--Other	25,789
Due on County Road Agreements	20,000
Sundry Accounts	3,198
Inventories	
Road Materials	244,003
Equipment Parts and Materials	146,558
Deferred Expenses--Fuel Depot	9,896
Capital Assets (Net of Accumulated Depreciation)	<u>26,913,158</u>
Total Assets	<u>28,828,478</u>

**LIABILITIES**

Current Liabilities	
Accounts Payable	104,539
Due to State of Michigan	396
Accrued Liabilities	76,664
Performance Bonds Payable	3,000
Non Current Liabilities	
Advance From State	309,071
Vested Employee Benefits Payable	<u>215,643</u>
Total Liabilities	<u>709,313</u>

**NET ASSETS**

Investment in Capital Fixed Assets	
Net of Related Debt	26,913,158
Restricted for County Roads	<u>1,206,007</u>
Total Net Assets	<u><u>\$28,119,165</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**MECOSTA COUNTY ROAD COMMISSION**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2005**

**EXHIBIT B**

Program Expenses	
Primary Road Maintenance	\$ 1,280,818
Local Road Maintenance	2,438,550
State Trunkline Maintenance	792,998
Net Equipment Expense	(151,019)
Net Administrative Expense	206,299
Infrastructure Depreciation	1,829,397
Compensated Absences	<u>15,419</u>
Total Program Expenses	<u>6,412,462</u>
Program Revenue	
Charges for Services	
Charges for Services	794,440
Operating Grants and Contributions	
Michigan Transportation Funds	4,053,205
Investment Earnings	96,415
Capital Grants and Contributions	
Federal Grants	33,128
State Grants	871,521
Contributions From Local Units	468,579
Contributions From Private Sources	<u>89,784</u>
Total Program Revenue	<u>6,407,072</u>
Net Program Revenue	<u>(5,390)</u>
General Revenue	
Gain on Equipment Disposal and Land Sales	<u>154,077</u>
Total General Revenues	<u>154,077</u>
Change in Net Assets	<u>148,687</u>
Net Assets	
Beginning of Year	<u>27,970,478</u>
End of Year	<u><u>\$ 28,119,165</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**MECOSTA COUNTY ROAD COMMISSION  
BALANCE SHEET  
December 31, 2005**

**EXHIBIT C**

**GOVERNMENTAL  
FUND TYPE**

General  
Operating  
Fund

**ASSETS**

Bank Deposits	\$ 694,101
Accounts Receivable	
State Trunkline Maintenance	135,983
Michigan Transportation Fund	635,792
Due From State--Salt Shed	25,789
Due From Township Agreements	20,000
Sundry Accounts	3,198
Inventories	
Road Materials	244,003
Equipment Parts and Materials	146,558
Deferred Expense--Fuel Depot	9,896
Total Assets	<u>\$1,915,320</u>

**LIABILITIES AND FUND EQUITY**

Liabilities	
Accounts Payable	\$ 104,539
Due to State	396
Accrued Liabilities	76,664
Advances	
State Trunkline Equipment Purchase	235,931
State Trunkline Maintenance	73,140
Performance Deposits Payable	3,000
Total Liabilities	<u>493,670</u>
Fund Equities	
Reserved for Inventory	390,561
Fund Balance	
Unreserved and Undesignated	1,031,089
Total Fund Equities	<u>1,421,650</u>
Total Liabilities and Fund Equities	<u>\$1,915,320</u>

**The Notes to Financial Statements are an integral part of this statement.**

**MECOSTA COUNTY ROAD COMMISSION  
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO  
THE STATEMENT OF NET ASSETS  
For the Year Ended December 31, 2005**

**EXHIBIT D**

Total Governmental Fund Balance	\$ 1,421,650
---------------------------------	--------------

Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	26,913,158
--	------------

Certain liabilities, such as compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(215,643)</u>
--	------------------

Net Assets of Governmental Activities	<u><u>\$ 28,119,165</u></u>
---------------------------------------	-----------------------------

**The Notes to Financial Statements are an integral part of this statement.**



**MECOSTA COUNTY ROAD COMMISSION**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**For the Year Ended December 31, 2005**

**EXHIBIT E**

	Operating Fund
Revenues	
Federal Aid	\$ 33,128
State Aid	4,924,726
Contributions From Local Units	468,579
Charges for Services	794,440
Interest and Rents	96,415
Other Revenue	243,861
	<hr/>
Total Revenues	6,561,149
	<hr/>
Expenditures	
Public Works	5,162,163
Capital Outlay	1,593,896
	<hr/>
Total Expenditures	6,756,059
	<hr/>
Excess of Revenues Over (Under) Expenditures	(194,910)
	<hr/>
Fund Balance--January 1, 2005	1,616,560
	<hr/>
Fund Balance--December 31, 2005	\$ 1,421,650
	<hr/> <hr/>

**The Notes to Financial Statements are an integral part of this statement.**

**MECOSTA COUNTY ROAD COMMISSION  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2005**

**EXHIBIT F**

Net Change in Fund Balance--Total Governmental Funds	\$(194,910)
--	-------------

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	359,016
Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.	

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense)	<u>(15,419)</u>
--	-----------------

Change in Net Assets of Governmental Activities	<u><u>\$ 148,687</u></u>
---	--------------------------

**The Notes to Financial Statements are an integral part of this statement.**

## MECOSTA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Mecosta County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Mecosta County Road Commission.

#### NOTE A--REPORTING ENTITY

The Mecosta County Road Commission (Road Commission), which is established pursuant to the County Road Law Michigan Compiled Laws (MCL) 224.1, is governed by an elected 3-member board of county road commissioners. The Road Commission may not issue debt without the county's approval and property tax levies for road purposes are subject to county board of commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Mecosta County Road Commission, a discretely presented component unit of Mecosta County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Mecosta County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

# MECOSTA COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

#### Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods or services or privileges provided; and (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

#### Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Measurable refers to the ability to quantify in monetary terms of the amount of the revenue. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

#### Bank Deposits and Investments

Bank Deposits are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

# MECOSTA COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

#### Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Mecosta County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

#### Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

#### Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

# MECOSTA COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

#### Budget Violations

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. During 2005, the actual expenditures exceeded the final amended budget for one activity as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Administrative	\$ 201,500	\$ 206,299	\$ (4,799)

### NOTE D--CASH AND INTEREST-BEARING DEPOSITS

MCL 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has designated three banks for the deposit of Road Commission funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

# MECOSTA COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE D--CASH AND INTEREST-BEARING DEPOSITS (Continued)

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 694,001
Petty Cash and Cash on Hand	<u>100</u>
Total	<u>\$ 694,101</u>

The bank balance of the primary government's deposits is \$893,974, of which \$100,000 is covered by Federal depository insurance.

### Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited their investments to money markets.

### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that change in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

### Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

## MECOSTA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE D--CASH AND INTEREST-BEARING DEPOSITS (Continued)

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction (e.g., broker-dealer), a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

#### NOTE E--DEFERRED EXPENSE

##### Fuel Depot

An intergovernmental agreement, for a term of 20 years, was entered into on December 15, 1993 with Chippewa Hills School District (District) for the use of the fuel depot. The District constructed a fuel depot/delivery system, which consisted of fuel tank(s) and delivery system(s) for fueling motor vehicles. The Road Commission paid \$25,000 upon notification by the District that the fuel depot was ready for operation. The District is responsible for the operation and maintenance of the fuel depot. A separate fund was established to cover all costs. Five cents per gallon will be charged and placed in the Operation and Maintenance Fund. The Road Commission is billed on a monthly basis for the actual fuel used plus the 5 cents per gallon. The initial \$25,000 was recorded as deferred expense and is reduced annually by a depreciation amount. The depreciation is determined using the straight-line method for 20 years. The balance is \$9,896 at December 31, 2005.

#### NOTE F--STATE TRUNKLINE

The \$7,871 difference between the State Trunkline maintenance revenues of \$753,981 and expenditures of \$761,852 is due to the Michigan Department of Transportation (MDOT) Trunkline maintenance audit report #2003-064 which resulted in a \$16,199 refund to the Road Commission and the Road Commission reduced the State Trunkline revenue by \$24,070 to correct an error in posting from a previous year.



# MECOSTA COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--CAPITAL ASSETS

A summary of changes in the Road Commission's capital assets are as follows:

	Account Balances 01/01/05	Additions	Deductions	Account Balances 12/31/05
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 255,547	\$ 58,190		\$ 313,737
Infrastructure Land Improvements	8,057,854	33,250		8,091,104
Subtotal	8,313,401	91,440	\$ -	8,404,841
Capital Assets Being Depreciated				
Buildings	1,634,223	748,462		2,382,685
Road Equipment	5,208,455	768,787	577,859	5,399,383
Shop Equipment	41,000			41,000
Office Equipment	131,862	12,664		144,526
Engineer's Equipment	90,029	5,793		95,822
Infrastructure--Bridges	2,933,366	47,991		2,981,357
Infrastructure--Roads	26,403,188	1,390,235	2,053,652	25,739,771
Total	36,442,123	2,973,932	2,631,511	36,784,544
Less Accumulated Depreciation				
Building	987,445	43,845		1,031,290
Road Equipment	3,673,541	603,549	356,414	3,920,676
Shop Equipment	36,074	618		36,692
Office Equipment	111,265	8,869		120,134
Engineer's Equipment	73,484	4,456		77,940
Infrastructure--Bridges	1,424,953	65,155		1,490,108
Infrastructure--Roads	11,894,620	1,758,418	2,053,652	11,599,386
Total	18,201,382	2,484,910	2,410,066	18,276,226
Net Capital Assets Being Depreciated	18,240,741	489,022	221,445	18,508,318
Total Net Capital Assets	<u>\$26,554,142</u>	<u>\$ 580,462</u>	<u>\$ 221,445</u>	<u>\$26,913,159</u>

# MECOSTA COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--CAPITAL ASSETS (Continued)

Depreciation and depletion expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 603,549
Indirect Equipment	48,919
Net Administrative Expense	
Office Equipment	8,869
Infrastructure Depreciation	<u>1,823,573</u>
Total Depreciation Expense	<u>\$ 2,484,910</u>

### NOTE H--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	<u>Balances</u> <u>01/01/05</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balances</u> <u>12/31/05</u>
Vested Employee Benefits			
Vacation Benefits	\$ 49,891	\$ 6,014	\$ 55,905
Sick Leave Benefits	<u>150,333</u>	<u>9,405</u>	<u>159,738</u>
Total	<u>\$ 200,224</u>	<u>\$ 15,419</u>	<u>\$ 215,643</u>

### Vested Employees Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of each employee. Administrative and supervisory union employees may accumulate vacation leave time of up to 5 weeks and nonsupervisory employees may accumulate up to 4 weeks. If union employees are unable to use their vacation benefits before they lose them, they may apply 4 weeks in advance of the end of their vacation eligibility year for permission from the engineer/administrator to carry their unused vacation into the following year.

## MECOSTA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE H--LONG-TERM DEBT (Continued)

##### Employee Sick Leave Benefits

All employees shall accumulate 1 sick leave day per month, not to exceed twelve-8 hour days per year. Upon retirement or death, all union employees shall be paid at his or her regular rate of pay of up to 400 hours unused sick leave and administrative employees shall be paid up to 240 hours of unused sick leave. All union employees may accumulate up to 1200 hours and administrative employees have no limit on the accumulation of sick leave.

Annually and just prior to their anniversary date, supervisory union employees may choose to sell back part or all of their sick leave hours that are in excess of 400 hours. Lump sum payments are calculated at \$9 per hour for all sick leave hours sold back.

#### NOTE I--POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Road Commission provides post-retirement health care benefits, in accordance with labor contracts and the personnel policy, to all employees who retire from the Road Commission. For the retired employees only, between 60 and 65 years old, premiums for medical benefits are paid in full by the Road Commission. When the retired employee attains the age of 65 years, the employer's contribution shall end under the contracts. Currently, 4 retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due. During the year, net expenditures of \$15,918 were recognized for post-retirement health care.

#### NOTE J--EMPLOYEE PENSION PLAN

##### Description of Plan and Plan Assets

The Mecosta County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. There are four groups of employees defined as general, union supervision, administration and manager. The service requirement for general employees, union supervision and administrative staff is computed using credited service at the time of termination of membership multiplied by the sum of 1.7% times the final average compensation. The service requirement for the manager is computed using credited service at the time of termination of membership multiplied by the sum of 2% times the final average compensation. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2004.

# MECOSTA COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE J--EMPLOYEE PENSION PLAN (Continued)

MERS was organized pursuant to Section 12a of Public Act 156 of 1851; MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

#### Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy which requires members, except for the manager, to contribute 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. During 2004, the employees' contributions totaled \$79,078. The Road Commission is required to contribute at an actuarially determined rate which was 0% of the annual payroll for the union and supervisors, and 3.55% for administration based on the 2002 actuarial valuation beginning on January 1, 2005.

#### Annual Pension Cost

During the calendar year ended December 31, 2004, the Road Commission's contributions were \$79,225 in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2002. The Road Commission paid the required contribution of \$79,225. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the members' retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

#### Three Year Trend Information for GASB Statement No. 27

Year Ended Dec 31	(Employee) Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	\$ 69,257	100%	0%
2003	71,975	100%	0%
2004	79,078	100%	0%

# MECOSTA COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE J--EMPLOYEE PENSION PLAN (Continued)

#### Required Supplementary Information for GASB Statement No. 27

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Overfunded (Unfunded) AAL (UAAL) (1)-(2)	Funded Ratio (1)/(2)	Covered Payroll	UAAL as a Percent of Covered Payroll
2002	\$ 6,272,522	\$ 5,838,535	\$ 433,987	107%	\$ 1,455,720	0%
2003	6,472,370	6,579,887	(107,517)	98%	1,555,247	7%
2004	6,674,690	7,097,253	(422,563)	94%	1,682,593	25%

### NOTE K--DEFERRED COMPENSATION PLAN

The Mecosta County Board of Road Commissioners offers all Road Commission employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457, with Mass Mutual. The assets of the plans were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in the Road Commission's financial statements.

### NOTE L--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts; theft of, damage to and destruction of assets; errors and omissions; employee injuries; and natural disasters. The Road Commission has purchased commercial insurance for medical benefit claims for its employees and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, building and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 fiscal years.

## MECOSTA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE L--RISK MANAGEMENT (Continued)

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool), pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities within the State. The Mecosta County Road Commission became a member in April 1984.

The Michigan County Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

#### NOTE M--CONTINGENT LIABILITIES

##### Gravel Contract

The Road Commission entered into a 15-year contract to purchase gravel on January 9, 1996. The terms of this contract state that the Road Commission will purchase at least 30,000 cubic yards of gravel per year during the term of lease, or so long as the gravel supply lasts. The cost of the gravel is as follows:

Years 1-5	.50 per cubic yard	Minimum cost per year \$15,000
Years 6-10	.55 per cubic yard	Minimum cost per year \$16,500
Years 11-15	.60 per cubic yard	Minimum cost per year \$18,000

#### NOTE N--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State Grants pertaining to their county. During the fiscal year ended December 31, 2005, the Federal aid received and expended by the Road Commission was \$33,128 for contracted projects. Contracted projects are defined as projects performed by private contractors that are paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit.

During the fiscal year ended December 31, 2005, the Road Commission did not receive Federal Grants for negotiated projects. Negotiated projects are projects that are performed by the Road Commission and are subject to single audit requirements, if the amount expended is \$500,000 or more. A Single Audit was not required during the fiscal year ended December 31, 2005.

## MECOSTA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE O--COMMITMENTS/SUBSEQUENT EVENT

As of December 31, 2005, the Mecosta County Board of Road Commissioners has commitments for three tandem trucks in the amount of \$374,974. The trucks are expected to be received in June 2006. On January 10, 2006, the Mecosta County Board of Road Commissioner approved the purchase of 20 acres of land for gravel in the amount of \$100,499. The Road Commission had sufficient local funds available to cover these purchases.

**MECOSTA COUNTY ROAD COMMISSION**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES**  
**BUDGETARY COMPARISON SCHEDULE**  
**For the Year Ended December 31, 2005**

**EXHIBIT G**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Federal Aid				
Critical Bridge	-	\$ 40,000	\$ 33,128	\$ (6,872)
State Aid				
Michigan Transportation Fund				
Engineering	\$ 10,000	10,000	10,000	-
Primary Road	2,220,000	2,193,000	2,216,455	23,455
Local Road	1,713,000	1,740,000	1,735,854	(4,146)
Primary Urban Road	55,000	65,000	51,383	(13,617)
Local Urban Road	30,000	23,000	26,993	3,993
Snow Removal	11,000	13,000	12,520	(480)
State Critical Bridge	-	7,000	6,211	(789)
Exchange of Federal Funds	425,000	503,000	502,268	(732)
Salt Shed Contributions		323,000	323,000	-
Economic Development Funds				
Forest Funds (E)	40,000	40,000	40,042	42
Contributions--Local Units				
Townships	500,000	500,000	373,579	(126,421)
Villages		102,327	60,000	(42,327)
County			35,000	35,000
Charges for Services				
State Trunkline Maintenance	900,000	900,000	753,981	(146,019)
State Trunkline Nonmaintenance	-	52,000	31,146	(20,854)
Salvage Sales	1,500	8,000	8,123	123
Abandonments/Plan Reviews	500	700	1,190	490
Interest and Rents				
Interest Earned	8,000	32,000	33,136	1,136
Property Rentals	59,000	64,000	63,279	(721)
Other Revenue				
Land Sale	-	-	28,500	28,500
Gain on Equipment Disposal	40,000	58,000	125,577	67,577
Contributions From Private Sources	-	90,000	89,784	(216)
Reimbursements	3,000	3,000	-	(3,000)
Total Operating Revenue	6,016,000	6,767,027	\$6,561,149	\$ (205,878)
Fund Balance--January 1, 2005	1,572,971	1,572,971		
Total Budget	\$7,588,971	\$ 8,339,998		

**The Notes to Financial Statements are an integral part of this statement.**



**MECOSTA COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended December 31, 2005**

**EXHIBIT H**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 925,000	\$ 815,000	\$ 812,018	\$ 2,982
Maintenance	1,100,000	1,282,250	1,280,818	1,432
Local Road				
Preservation/Structural Improvements	982,000	612,527	611,467	1,060
Maintenance	1,959,000	2,441,250	2,438,550	2,700
Primary Road Structures				
Preservation/Structural Improvements		3,500	3,334	166
Local Road Structures				
Preservation/Structural Improvements	-	45,500	44,656	844
State Trunkline				
Maintenance	900,000	763,000	761,852	1,148
Nonmaintenance	-	37,000	31,146	5,854
Equipment Expense--Net	(130,000)	(238,500)		
Direct			\$ 1,232,586	
Indirect			325,964	
Operating			348,238	
Less: Equipment Rentals			<u>(2,057,807)</u>	(87,481)
Administrative Expense--Net	180,000	201,500		
Administrative Expense			293,513	
Less: Overhead--Trunkline Maintenance			(84,248)	
Handling Charges			(2,681)	
Purchase Discounts			<u>(285)</u>	(4,799)
Capital Outlay--Net	-	804,000		
Capital Outlay			1,593,896	
Less: Depreciation Credits			(655,513)	
Equipment Retirements			<u>(221,445)</u>	87,062
Contingency	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	6,016,000	6,767,027	<u>\$ 6,756,059</u>	<u>\$ 10,968</u>
Fund Balance--December 31, 2005	<u>1,572,971</u>	<u>1,572,971</u>		
Total Budget	<u>\$ 7,588,971</u>	<u>\$ 8,339,998</u>		

**The Notes to Financial Statements are an integral part of this statement.**

**MECOSTA COUNTY ROAD COMMISSION  
ANALYSIS OF CHANGES IN FUND BALANCES  
For the Year Ended December 31, 2005**

**EXHIBIT I**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 2,958,713	\$ 2,242,201	\$ 1,360,235	\$ 6,561,149
Total Expenditures	2,615,214	3,132,822	1,008,023	6,756,059
Excess of Revenues Over (Under) Expenditures	343,499	(890,621)	352,212	(194,910)
Other Financing Sources (Uses)				
Optional Transfers	(682,031)	682,031		-
Interfund Adjustment		208,590	(208,590)	-
Total Other Financing Sources (Uses)	(682,031)	890,621	(208,590)	-
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	(338,532)	-	143,622	(194,910)
Fund Balance--January 1, 2005	930,246	-	686,314	1,616,560
Fund Balance--December 31, 2005	\$ 591,714	\$ -	\$ 829,936	\$ 1,421,650

**MECOSTA COUNTY ROAD COMMISSION**  
**ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES**  
**For the Year Ended December 31, 2005**

**EXHIBIT J**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Federal Aid				
Critical Bridge		\$ 33,128		\$ 33,128
State Aid				
Michigan Transportation Fund				
Engineering	\$ 5,600	4,400		10,000
Primary Road	2,216,455			2,216,455
Local Road		1,735,854		1,735,854
Primary Urban Road	51,383			51,383
Local Urban Road		26,993		26,993
Snow Removal		12,520		12,520
State Critical Bridge		6,211		6,211
Exchange of Federal Funds	502,268			502,268
Salt Shed Contributions			\$ 323,000	323,000
Economic Development Funds				
Forest Funds (E)		40,042		40,042
Contributions--Local Units				
Townships	80,310	293,269		373,579
Villages			60,000	60,000
County			35,000	35,000
Charges for Services				
State Trunkline Maintenance			753,981	753,981
State Trunkline Nonmaintenance			31,146	31,146
Salvage Sales			8,123	8,123
Abandonments/Plan Reviews			1,190	1,190
Interest and Rents				
Interest Earned	19,219		13,917	33,136
Property Rentals			63,279	63,279
Other Revenue				
Land Sale			28,500	28,500
Gain on Equipment Disposal	83,478		42,099	125,577
Contributions From Private Sources		89,784		89,784
Total Operating Revenue	\$2,958,713	\$2,242,201	\$1,360,235	\$6,561,149

**MECOSTA COUNTY ROAD COMMISSION**  
**ANALYSIS OF EXPENDITURES**  
**For the Year Ended December 31, 2005**

**EXHIBIT K**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 812,018			\$ 812,018
Maintenance	1,280,818			1,280,818
Local Road				
Preservation/Structural Improvements		\$ 611,467		611,467
Maintenance		2,438,550		2,438,550
Primary Road Structures				
Preservation/Structural Improvements	3,334			3,334
Local Road Structures				
Preservation/Structural Improvements		44,656		44,656
State Trunkline				
Maintenance			\$ 761,852	761,852
Nonmaintenance			31,146	31,146
Equipment Expense--Net (Per Exhibit H)	(40,926)	(84,842)	(25,251)	(151,019)
Administrative Expense--Net (Per Exhibit H)	83,308	122,991		206,299
Capital Outlay--Net (Per Exhibit H)	476,662		240,276	716,938
Total Expenditures	\$2,615,214	\$3,132,822	\$1,008,023	\$ 6,756,059



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

March 22, 2006

Mecosta County Road Commission  
Board of County Road Commissioners  
120 DeKraft  
Big Rapids, Michigan 49307

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of the Financial Statements Performed in Accordance With  
Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of Mecosta County Road Commission, a component unit of Mecosta County, as of and for the year ended December 31, 2005 and have issued our report thereon dated March 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Mecosta County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether the Mecosta County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Mecosta County Road Commission management, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', is positioned above the printed name.

Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division